

Message Text

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14

ACTION EB-07

INFO OCT-01 AF-06 EUR-12 EA-07 NEA-10 ISO-00 IGA-02 AID-05

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00

XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01

NSC-05 SS-15 STR-04 CEA-01 ABF-01 /106 W

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R 191545Z FEB 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 227

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY ALGIERS

AMEMBASSY AMMAN

AMEMBASSY BAGHDAD

AMEMBASSY BEIRUT

AMEMBASSY DAMASCUS

AMEMBASSY DOHA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY RABAT

AMEMBASSY TRIPOLI

AMEMBASSY TUNIS

AMEMBASSY MOGADISCIO

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EGEN, EFIN, ETRD, EG

SUBJECT: EGYPT ESTABLISHES NEW PARALLEL MARKET RATE

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REF: 75 CAIRO 10874

1. PRESS AND RADIO FEB 19 ANNOUNCED DECISION BY HIGHER PLANNING COMMITTEE, CHAIRED BY PM SALIM, TO INCREASE INCENTIVE OR PARALLEL MARKET RATE FROM FIFTY PERCENT TO SIXTY-FIVE PERCENT OVER OFFICIAL RATE. THIS MEANS THAT ONE DOLLAR WILL BUY PIASTERS (PT) 64 VICE PT 57 UNDER OLD RATE. ANNOUNCEMENTS MADE CLEAR THAT OFFICIAL RATE OF EXCHANGE (\$1 EQUALS PT 39) WILL NOT BE AFFECTED BY THIS CHANGE.

2. NEW RATE AFFECTS ALL TRANSACTIONS CARRIED OUT IN PARALLEL MARKET INCLUDING, PRESUMABLY FULL RANGE OF IMPORTS AND EXPORTS NOW PERMITTED IN THAT CATEGORY (REFTEL), AS WELL AS TOURIST TRANSACTIONS.

3. COMMENT: THIS MEASURE HAS LONG BEEN ADVOCATED AS MEANS OF OFFSETTING LOSS OF HARD CURRENCY REVENUES TO GOE AS A RESULT OF BROAD SPREAD BETWEEN OLD INCENTIVE RATE AND FREE OR BLACK MARKET RATE (\$1 EQUALS PT 70-80). GOE EVIDENTLY EXPECTS THAT INCREASE OF FIFTEEN PERCENT WILL ENCOURAGE RETURN OF SIGNIFICANT PROPORTION OF EXPATRIATE REMITTANCES AND TOURIST TRANSFERS TO OFFICIAL CHANNELS. (IN THIS CONNECTION IT IS INTERESTING TO NOTE THAT LAST WEEK WITNESSED RARE EFFORT BY GOE TO CRACK DOWN ON FREE MARKET EXCHANGE ACTIVITIES. NUMBER OF ARRESTS WERE MADE IN CITY, PARTICULARLY BAZAAR AREA, OF INDIVIDUALS ENGAGED IN EXCHANGING CURRENCIES AT WHAT UP UNTIL THAT TIME HAD BEEN OPENLY PERMITTED BLACK MARKET RATE. THIS TYPE OF ACTION, COUPLED WITH INCREASE IN INCENTIVE, SHOULD LEAD TO GREATER REVENUE FOR GOE.)

4. AT SAME TIME, NEW RATE WIDENS GAP BETWEEN OFFICIAL AND INCENTIVE RATES. THUS, WHILE MEASURE REPRESENTS GESTURE IN DIRECTION URGED BY IMF AND IBRD, I.E., ESTABLISHING MORE REALISTIC RATE FOR POUND, IT WILL MAKE IT MORE DIFFICULT FOR GOE TO ESTABLISH A UNITARY EXCHANGE RATE WHICH WILL CLEARLY BE REQUIRED AT SOME FUTURE DATE (AND WHICH WILL NOW APPEAR EVEN MORE NECESSARY).
EILTS

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